

**LAKE FOREST
REDEVELOPMENT AGENCY**

**(A COMPONENT UNIT OF
THE CITY OF LAKE FOREST)**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

LAKE FOREST REDEVELOPMENT AGENCY

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June 30, 2011

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lake Forest
Redevelopment Agency
Lake Forest, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lake Forest Redevelopment Agency (the Agency), (a component unit of the City of Lake Forest, California), as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1g to the basic financial statements, the Agency has implemented the provisions of Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011.

As explained further in Note 7, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2011 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis, and budgetary comparison schedule, identified as required supplementary information in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. This information is an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information and computation of the excess surplus of the Low and Moderate Income Housing Special Revenue Fund, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Agency. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

White Nelson Duhl Evans LLP

December 8, 2011
Irvine, California

LAKE FOREST REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

The following discussion and analysis of the Lake Forest Redevelopment Agency's (Agency) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2011. Readers are encouraged to consider the information presented here in conjunction with the accompanying basic financial statements.

Financial Highlights

- The Agency's net assets decreased by \$3,118,655 as a result of this year's operations
- The total government-wide revenue was \$4,574,134
- The total cost of all Agency programs was \$7,692,789
- The Agency's long-term liabilities decreased by \$1,138,143 during the current fiscal year due to a promissory note payable to the City of Lake Forest which was paid in full in fiscal year 2011

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as *total net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *Statement of Activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements report on functions of the Agency that are principally supported by property taxes (*governmental activities*). The governmental activities include community development, a low and moderate income housing program, and interest on long-term debt obligations.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are governmental funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Low and Moderate Income Housing Fund, the Debt Service Fund, and the Capital Projects Fund, all of which are major funds.

The Agency adopts an annual appropriated budget for all funds. A budgetary comparison statement for each fund has been provided to demonstrate compliance with this budget.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary information. The Debt Service and Capital Projects Fund Budgetary Comparison Schedules are presented as well as a schedule of the Computation of the Low and Moderate Income Housing Fund – Excess Surplus.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Government-wide Financial Analysis

Our analysis focuses on the net assets and changes in net assets of the Agency's governmental activities for the fiscal year ending June 30, 2011. However, comparative total data have been presented for the fiscal year ended June 30, 2010.

Condensed Statement of Net Assets

	Governmental Activities	
	June 30, 2011	June 30, 2010
Current and other assets	\$ 4,680,687	\$ 9,265,440
Capital assets	877,507	512,162
Total assets	5,558,194	9,777,602
Long-term debt outstanding	-	1,138,143
Other liabilities	82,221	44,831
Total liabilities	82,221	1,182,974
Net assets:		
Invested in capital assets	877,507	512,162
Restricted	4,598,466	8,082,466
Total net assets	\$ 5,475,973	\$ 8,594,628

Restricted net assets of \$4,598,466 represent resources that are subject to external restriction on how they may be used. The Agency, operating under the California Community Redevelopment Law, must maintain debt in excess of its available assets to legally receive tax increment revenue. Future tax increment revenue must be used to liquidate long-term liabilities.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

The Agency's net assets decreased by \$3,118,655 during the current fiscal year. Key elements of this are as follows:

Change in Net Assets

	Governmental Activities	
	Year Ended June 30, 2011	Year Ended June 30, 2010
General revenues:		
Property tax increment	\$ 4,506,012	\$ 5,400,837
Investment income	56,629	127,804
Other	11,493	29,223
Total revenues	<u>4,574,134</u>	<u>5,557,864</u>
Expenses:		
Low and moderate income housing	1,166,941	190,995
Community development	6,525,848	4,115,020
Interest on long-term debt		11,132
Total expenses	<u>7,692,789</u>	<u>4,317,147</u>
Change in net assets	(3,118,655)	1,240,717
Net assets at beginning of year	<u>8,594,628</u>	<u>7,353,911</u>
Net assets at end of year	<u>\$ 5,475,973</u>	<u>\$ 8,594,628</u>

Tax increment revenues of \$4,506,012 represent the Agency's primary revenue source. This revenue decreased by \$894,825 from the prior fiscal year due to the unhealthy housing and commercial real estate markets.

Investment income of \$56,629 was earned from investment of available funds and from interest on various housing and redevelopment loans as discussed in the notes to the basic financial statements. Investment income decreased by \$71,175 from the prior fiscal year due to the decreased investment rates in the financial markets.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Financial Analysis of the Agency's Funds

As of June 30, 2011, the Agency's governmental funds reported combined ending fund balances of \$4,108,557, a decrease of \$4,798,907 from the prior fiscal year. Of the total ending fund balances, \$3,876 is Nonspendable prepaid items that are reserved to indicate that it is not available for new spending because it offsets noncurrent financial resources that are not expected to be liquidated in the near term. The remainder of the fund balances of \$4,104,681 constitutes restricted fund balance available only for the purpose of Low and Moderate Income Housing and Debt Service appropriations.

The Low and Moderate Income Housing Fund, a special revenue fund, is used to account for funds that are set aside for low and moderate housing, as well as related expenditures. At the end of the current fiscal year, this fund had a fund balance of \$3,286,301, a decrease of \$898,570. The primary revenue sources for this fund are 20% of the Agency's tax increment, and investment income. Tax increment is received from the County of Orange each year and is related to tax increment from the prior fiscal year. These prior year revenues were based on real estate activity in calendar year 2009. Tax increment decreased from the prior year due to the unhealthy housing and commercial real estate markets along El Toro road. Investment earnings continued to decrease as a result of the financial crisis and rapidly declining yields on investments. Other revenues mostly consisted of repayments of loans from the housing rehabilitation loan program.

Expenditures in the Low and Moderate Income Housing Fund increased \$820,319 from the prior year due to the fund contributing property to the Lake Forest Housing Authority and increase in Capital outlay.

The Debt Service Fund collects tax increment revenues, remits pass-through payments to other agencies, incurs interest cost, and funds operating cost in the Capital Projects Fund. At the end of the current fiscal year, this fund had a fund balance of \$854,322, a decrease of \$3,868,271. Tax increment decreased due to similar reasons noted above, while investment earnings decreased as a result of the rapid decline in market interest rates. Expenditures increased \$3,319,195 from the prior fiscal year due primarily to expenditures for Capital Projects and a promissory note payable to the City of Lake Forest, which was paid in full in fiscal year 2011.

The Capital Projects Fund is the chief operating fund of the Agency. At the end of the current fiscal year, this fund had a small deficit balance of \$32,066 and will be eliminated through future transfers. The expenditures are funded each year by the Debt Service Fund. Expenditures and interfund transfers were similar to the prior year.

See independent auditors' report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of June 30, 2011, the Agency's investment in capital assets amounts to \$877,507, net of accumulated depreciation. Cost in the building and improvements category increased by \$378,090 primarily related to the Saguaro neighborhood improvements.

For additional information see Note 4 in the Notes to Basic Financial Statements.

Long-term liabilities. As of June 30, 2011, the Agency's only Long-Term Liability decreased by \$1,138,143 (100%). This was a promissory note payable to the City of Lake Forest, which was paid in full in fiscal year 2011.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

For additional information see Note 5 in the Notes to Basic Financial Statements.

Contacting the Agency's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Director of Finance, Lake Forest Redevelopment Agency, 25550 Commercentre Drive, Suite 100, Lake Forest, California 92630.

See independent auditors' report.

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LAKE FOREST REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

June 30, 2011

ASSETS:

Cash and investments	\$ 4,144,484
Receivables:	
Accounts	2,013
Interest	15,239
Loans	487,559
Due from other governments	27,516
Prepaid items	3,876
Capital assets:	
Being depreciated, net	<u>877,507</u>
 TOTAL ASSETS	 <u>5,558,194</u>

LIABILITIES:

Accrued liabilities	<u>82,221</u>
 TOTAL LIABILITIES	 <u>82,221</u>

NET ASSETS:

Invested in capital assets	877,507
Restricted for:	
Low and moderate income housing	3,286,301
Debt service	<u>1,312,165</u>
 TOTAL NET ASSETS	 <u>\$ 5,475,973</u>

See independent auditors' report and notes to basic financial statements.

LAKE FOREST REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

PROGRAM EXPENSES:

Low and moderate income housing	\$ 1,166,941
Community development	<u>6,525,848</u>

TOTAL PROGRAM EXPENSES	<u>7,692,789</u>
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GENERAL REVENUES:

Property tax increment	4,506,012
Investment income	56,629
Other	<u>11,493</u>

TOTAL GENERAL REVENUES	<u>4,574,134</u>
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CHANGE IN NET ASSETS	(3,118,655)
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NET ASSETS AT BEGINNING OF YEAR	<u>8,594,628</u>
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NET ASSETS AT END OF YEAR	<u><u>\$ 5,475,973</u></u>
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See independent auditors' report and notes to basic financial statements.

LAKE FOREST REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2011

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
ASSETS				
Cash and investments	\$ 3,320,637	\$ 823,847	\$ -	\$ 4,144,484
Receivables:				
Accounts	2,013	-	-	2,013
Interest	11,741	3,498	-	15,239
Loans	487,559	-	-	487,559
Due from other governments	-	27,516	-	27,516
Prepaid items	1,503	-	2,373	3,876
TOTAL ASSETS	\$ 3,823,453	\$ 854,861	\$ 2,373	\$ 4,680,687
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accrued liabilities	\$ 47,782	\$ -	\$ 34,439	\$ 82,221
Deferred revenue	489,370	539	-	489,909
TOTAL LIABILITIES	537,152	539	34,439	572,130
FUND BALANCES (DEFICIT):				
Nonspendable:				
Prepaid items	1,503	-	2,373	3,876
Restricted for:				
Low and moderate income housing	3,284,798	-	-	3,284,798
Debt service	-	854,322	-	854,322
Unassigned	-	-	(34,439)	(34,439)
TOTAL FUND BALANCES (DEFICIT)	3,286,301	854,322	(32,066)	4,108,557
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,823,453	\$ 854,861	\$ 2,373	\$ 4,680,687

See independent auditors' report and notes to basic financial statements.

LAKE FOREST REDEVELOPMENT AGENCY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2011

Fund balances - total governmental funds \$ 4,108,557

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets net of depreciation have not been included as financial resources in governmental fund activities:

Cost of capital assets, being depreciated

\$ 907,766

Accumulated depreciation

(30,259)

877,507

Long-term loans receivable are not available to pay for current-period expenditures and therefore are deferred in the funds.

487,559

Certain revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year-end. Therefore, they are revenue on the accrual basis used in the government-wide statements.

2,350

Net assets of governmental activities

\$ 5,475,973

See independent auditors' report and notes to basic financial statements.

LAKE FOREST REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2011

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
REVENUES:				
Taxes	\$ 810,798	\$ 3,695,214	\$ -	\$ 4,506,012
Investment income	12,387	41,892	-	54,279
Other	7,526	6,053	-	13,579
	<u>830,711</u>	<u>3,743,159</u>	<u>-</u>	<u>4,573,870</u>
TOTAL REVENUES				
EXPENDITURES:				
Current:				
Low and moderate income housing	495,515	-	-	495,515
Community development	-	3,770,791	739,587	4,510,378
Contribution of property to the Lake Forest Housing Authority	326,000	-	-	326,000
Capital outlay	907,766	-	213,233	1,120,999
Debt service:				
Repayment of advances to City	-	1,138,143	-	1,138,143
Pass-through payments	-	1,532,740	-	1,532,740
SERAF payment to State	-	249,002	-	249,002
	<u>1,729,281</u>	<u>6,690,676</u>	<u>952,820</u>	<u>9,372,777</u>
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(898,570)</u>	<u>(2,947,517)</u>	<u>(952,820)</u>	<u>(4,798,907)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	920,754	920,754
Transfers out	-	(920,754)	-	(920,754)
	<u>-</u>	<u>(920,754)</u>	<u>920,754</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)				
NET CHANGE IN FUND BALANCES	(898,570)	(3,868,271)	(32,066)	(4,798,907)
FUND BALANCES - BEGINNING OF YEAR	<u>4,184,871</u>	<u>4,722,593</u>	<u>-</u>	<u>8,907,464</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 3,286,301</u>	<u>\$ 854,322</u>	<u>\$ (32,066)</u>	<u>\$ 4,108,557</u>

See independent auditors' report and notes to basic financial statements.

LAKE FOREST REDEVELOPMENT AGENCY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

Net change in fund balances - total governmental funds \$ (4,798,907)

Amounts reported for governmental activities in the Statement of Activities are different because:

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreased by the amount of financial resources expended, whereas net assets decreased by the amount of depreciation expense charged for the year.

Additions	\$	907,766	
Contributed to the Housing Authority		(473,835)	
Deletions		(38,327)	
Depreciation expense		<u>(30,259)</u>	
			365,345

This issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. 1,138,143

Some revenue reported in the Statement of Activities are not considered to be available to finance current expenditures and therefore are not reported as revenues in the governmental funds. 2,350

Long-term loans are reported as expenditures when made and as revenue when repaid in the governmental funds. However, there is no impact in the Statement of Activities when loans are made or repaid. 174,414

Change in net assets of governmental activities \$ (3,118,655)

See independent auditors' report and notes to basic financial statements.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Lake Forest Redevelopment Agency (Agency) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the Agency's significant accounting policies:

a. Description of the Reporting Entity:

The Agency was activated in October 1995 by the City of Lake Forest pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law." The primary purpose of the Agency is to eliminate blighted areas by encouraging development of residential, commercial, industrial, recreational, and public facilities. The Agency is an integral part of the reporting entity of the City of Lake Forest. The funds of the Agency have been included within the scope of the basic financial statements of the City because the City Council exercises oversight responsibility over the operations of the Agency. The original plan was dated February 28, 1988 and had a life of 45 years.

Only the funds of the Agency are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Lake Forest, California.

b. Financial Statement Presentation:

Government-Wide Financial Statements

The Agency Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental Activities for the Agency.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets as well as long-term debt, if any, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Agency can be reported in three categories: (1) Charges for services. (2) Operating grants and contributions. (3) Capital grants and contributions.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Financial Statement Presentation (Continued):

Government-Wide Financial Statements (Continued)

Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances within the Agency have been eliminated.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenue, Expenditures, and Changes in Fund Balances for all major governmental funds. The Agency has presented all major funds that met the qualifications of GASB Statement No. 34.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except for revenues subject to accrual (generally 90 days after year end) are recognized when due. The primary revenue source susceptible to accrual is investment income.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on long-term debt which is recognized when due.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Financial Statement Presentation (Continued):

Governmental Fund Financial Statements (Continued)

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Agency reports the following major governmental funds:

The Special Revenue Fund is used to account for the 20% portion of the Agency's tax increment revenue that is required to be set aside for low and moderate income housing and related expenditures.

The Debt Service Fund is used to account for the accumulation of resources for the payment of principal and interest on long-term debt.

The Capital Projects Fund is used to account for the financial resources used in developing the project area as well as the administrative expenses incurred in sustaining Agency activities.

c. Tax Increment Revenues:

Incremental property tax revenues are established pursuant to California Community Redevelopment Law and result from the excess of taxes levied and collected each year in designated project areas over and above the amount which would have been produced, at current rates, by the assessed value as shown on the last equalized property tax assessment roll prior to the effective date of the ordinance establishing the designated project areas.

Incremental property taxes are considered as revenues of the project area when notification is received from the County of Orange and received in cash within 60 days of the fiscal year-end.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Cash and Investments:

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as investment income for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

Cash and investments are pooled with other City of Lake Forest funds for investment purposes, with interest being allocated quarterly to all funds legally requiring allocation and to other various funds at the direction of management based on average month-end pooled funds cash and investment balances. Interest income for cash and investments excluded from pooled cash is credited directly to the related fund. Investment policies applicable to the Agency's funds are those of the City of Lake Forest and are included in the notes to the City's basic financial statements.

e. Land Held for Resale:

Land held for resale is carried at lower of cost or estimated net realizable value determined at the date of an executed disposition and development agreement. As of June 30, 2011, the Agency did not hold land held for resale.

f. Capital Assets:

Capital assets are recorded at cost where historical records are available and as an estimated original cost when no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of contribution. Generally, capital assets purchases in excess of \$1,000 are capitalized if they have an expected useful life of one year or more.

The Agency does not own any infrastructure assets.

Capital assets are used in operations and depreciated over their estimated useful lives using straight-line method in the Government-wide Financial Statements. The range of useful lives used for depreciation purposes of each capital asset class are:

Buildings and improvements	10 - 30 years
Machinery and equipment	3 - 7 years

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Governmental Fund Balance Classifications:

The fund balances reported on the fund statements now consist of the following categories:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed Fund Balance - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned Fund Balance - This classification includes amounts to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned Fund Balance - This classification includes the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Agency's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Agency's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

h. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

i. Reclassifications:

Certain balances reported in the June 30, 2011 financial statements have been reclassified.

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Cash and investments	<u>\$ 4,144,484</u>
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Cash and investments as of June 30, 2011 consist of the following:

Equity in City investment pool	<u>\$ 4,144,484</u>
--------------------------------	---------------------

Equity in the Cash and Investment Pool of the City of Lake Forest

The Agency has no separate bank accounts or investments other than in its equity in the cash and investment pool managed by the City of Lake Forest. The Agency is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Lake Forest. The Agency has not adopted an investment policy separate from that of the City of Lake Forest. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded at the estimated fair value.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by fiscal agent that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity *	Maximum Percentage of Portfolio *	Maximum Investment in One Issuer *
Local Agency Bonds	No	4 years	None	None
U.S. Treasury Obligations	Yes	4 years	None	None
U.S. Agency Securities	Yes	4 years	60%	20% - 30%
Banker's Acceptances	Yes	180 days	20%	5%
Commercial Paper	Yes	180 days	15%	5%
Negotiable Certificates of Deposit	Yes	4 years	20%	5%
Repurchase Agreements	Yes	30 days	10%	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	10%	\$ 1,000,000
Mutual Funds	Yes	2 years	20%	10%
Money Market Mutual Funds	Yes	90 days	10%	10%
Mortgage Pass-Through securities	No	5 years	20%	None
County Pooled Investment Funds	No	None	None	None
California Asset Management Program	Yes	None	30%	None
State Investment Pool (LAIF)	Yes	None	50%	None
JPA Pools (other investment pools)	Yes	None	30%	None

* - Based on state law requirements or investment policy requirements, whichever is more restrictive. The City may not invest in items that are permitted by the State but not permitted by the City's investment policy.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Disclosures Relating to Interest Rate Risk, Credit Risk and Custodial Credit Risk

Additional disclosures related to interest rate risk, credit risk and custodial credit risk are available in the City of Lake Forest's Comprehensive Annual Financial Report.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

3. INTERFUND ACTIVITIES:

Interfund Transfers

Interfund transfers during the year ended June 30, 2011 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Projects Fund	Debt Service Fund	<u>\$ 920,754</u>

The Debt Service Fund transferred money to the Capital Projects Fund to provide funding for redevelopment operations and capital improvement projects.

4. CAPITAL ASSETS:

The following is a summary of changes in capital assets for the year ended June 30, 2011:

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Capital assets, not being depreciated:				
Land	<u>\$ 7,168</u>	<u>\$ -</u>	<u>\$ (7,168)</u>	<u>\$ -</u>
Capital assets, being depreciated:				
Buildings and improvements	517,224	907,766	(517,224)	907,766
Machinery and equipment	<u>33,945</u>	<u>-</u>	<u>(33,945)</u>	<u>-</u>
Total capital assets, being depreciated	<u>551,169</u>	<u>907,766</u>	<u>(551,169)</u>	<u>907,766</u>
Less accumulated depreciation for:				
Buildings and improvements	(17,807)	(30,259)	17,807	(30,259)
Machinery and equipment	<u>(28,368)</u>	<u>-</u>	<u>28,368</u>	<u>-</u>
Total accumulated depreciation	<u>(46,175)</u>	<u>(30,259)</u>	<u>46,175</u>	<u>(30,259)</u>
Total capital assets, being depreciated, net	<u>504,994</u>	<u>877,507</u>	<u>(504,994)</u>	<u>877,507</u>
Total governmental activities capital assets, net	<u>\$ 512,162</u>	<u>\$ 877,507</u>	<u>\$ (512,162)</u>	<u>\$ 877,507</u>

Depreciation expense of \$30,259 was charged to the Low and Moderate Income Housing function in the Statement of Activities.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

4. CAPITAL ASSETS (CONTINUED):

The Agency conveyed two properties to the Housing Authority with a net value of \$473,835 during the year ended June 30, 2011. These properties will be developed into affordable housing for families of low and moderate income within the City of Lake Forest.

5. LONG-TERM LIABILITIES:

The following is a summary of changes in long-term liabilities for the year ended June 30, 2011:

	Balance at July 1, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, <u>2011</u>	Due Within One <u>Year</u>
Advance from					
City of Lake Forest	<u>\$ 1,138,143</u>	<u>\$ -</u>	<u>\$ (1,138,143)</u>	<u>\$ -</u>	<u>\$ -</u>

The City of Lake Forest General Fund has advanced money to the Agency to finance operations. The loan agreement provides for reimbursement to the City together with interest thereon at the same rate per annum as the City is receiving during such period on its investment portfolio. The advance from the City of Lake Forest was paid in full in fiscal year 2011.

6. OTHER DISCLOSURE:

The Capital Projects Fund has a deficit fund balance of \$32,066 which will be eliminated through future transfers.

7. COMMITMENTS AND CONTINGENCIES:

Rancho Cañada Financing Authority

Under the terms of a reimbursement agreement dated March 1, 2004, the Agency is a guarantor of the City's commitment to make lease payments to the Rancho Cañada Financing Authority (Authority) that are sufficient in timing and amount to service the 2004 Certificates of Participation that were issued by the Authority in the amount of \$9,505,000.

The reimbursement agreement provides that to the extent necessary and to the extent that the Agency has available funds, the Agency will reimburse the City for its obligation to make lease payments to the Authority.

As of June 30, 2011, the unpaid balance of the City's liability to make lease payments to the Authority was \$8,100,000.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

7. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills 1x 26 and 27 as part of the State's budget package. Assembly Bill 1x 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill 1x 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program each City would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill 1x 26 indicates that the City "may use any available funds not otherwise obligated for other uses" to make this payment. The City intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill 1x 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill 1x 26.

In the event that Assembly Bill 1x 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills 1x 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill 1x 27 and most of Assembly Bill 1x 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012". A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills 1x 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule (EOPS) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (ROPS) by September 30, 2011.

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

7. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued)

Because the stay provide by Assembly Bill 1x 26 only affects enforcement, each agency must adopt an EOPS and draft ROPS prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlement; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill 1x 26.

On August 2, 2011, City Ordinance No. 233 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills 1x 26 and/or 27 are upheld as constitutional. The initial payment by the City is \$2,001,564 with on half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated payment will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill 1x 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low and moderate income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of Assembly Bill 1x 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of ligation surrounding the actions of the state. In the event that Assembly Bill 1x 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE FOREST REDEVELOPMENT AGENCY

BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 892,000	\$ 811,000	\$ 810,798	\$ (202)
Investment income	50,000	20,000	12,387	(7,613)
Other	6,500	6,500	7,526	1,026
TOTAL REVENUES	948,500	837,500	830,711	(6,789)
EXPENDITURES:				
Current:				
Low and moderate income housing	511,200	499,900	495,515	4,385
Contribution of property to the				
Lake Forest Housing Authority	-	326,000	326,000	-
Capital outlay	-	1,386,000	907,766	478,234
TOTAL EXPENDITURES	511,200	2,211,900	1,729,281	482,619
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	437,300	(1,374,400)	(898,570)	475,830
FUND BALANCE - BEGINNING OF YEAR	4,184,871	4,184,871	4,184,871	-
FUND BALANCE - END OF YEAR	\$ 4,622,171	\$ 2,810,471	\$ 3,286,301	\$ 475,830

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

1. BUDGETARY DATA:

The Agency adopts an annual budget prepared on the modified accrual basis for all funds. The Executive Director is required to prepare and submit to the Agency Board of Directors the annual budget of the Agency and administer it after adoption. Any revisions that alter the total appropriations must be approved by the Agency Board of Directors. The Agency's level of budgetary control for the operating budget is within a department or a capital project. Certain unexpended and unencumbered appropriations, which are available and recommended for continuation to the following fiscal year, are approved by the Agency Board for carryover. Encumbered appropriations lapse at year-end but are recommended to the Agency Board for carryover. Total expenditures may not legally exceed total appropriations at the department level.

See independent auditors' report.

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SUPPLEMENTARY INFORMATION

LAKE FOREST REDEVELOPMENT AGENCY

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Taxes	\$ 3,695,000	\$ 3,695,214	\$ 214
Investment income	35,000	41,892	6,892
Other	-	6,053	6,053
TOTAL REVENUES	<u>3,730,000</u>	<u>3,743,159</u>	<u>13,159</u>
EXPENDITURES:			
Current:			
Community development	3,771,100	3,770,791	309
Debt service:			
Repayment of advances to City	1,138,143	1,138,143	-
Pass through payments	1,532,698	1,532,740	(42)
SERAF payment to State	249,002	249,002	-
Interest and fiscal charges	3,400	-	3,400
TOTAL EXPENDITURES	<u>6,694,343</u>	<u>6,690,676</u>	<u>3,667</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,964,343)	(2,947,517)	16,826
OTHER FINANCING USES:			
Transfers out	<u>(1,066,200)</u>	<u>(920,754)</u>	<u>145,446</u>
NET CHANGE IN FUND BALANCE	(4,030,543)	(3,868,271)	162,272
FUND BALANCE - BEGINNING OF YEAR	<u>4,722,593</u>	<u>4,722,593</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 692,050</u>	<u>\$ 854,322</u>	<u>\$ 162,272</u>

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

BUDGETARY COMPARISON SCHEDULE

CAPITAL PROJECTS FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES:			
Current:			
Community development	1,241,200	739,587	501,613
Capital outlay	259,818	213,233	46,585
TOTAL EXPENDITURES	1,501,018	952,820	548,198
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,501,018)	(952,820)	548,198
OTHER FINANCING SOURCES:			
Transfers in	1,066,200	920,754	(145,446)
NET CHANGE IN FUND BALANCE	(434,818)	(32,066)	402,752
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE (DEFICIT) - END OF YEAR	\$ (434,818)	\$ (32,066)	\$ 402,752

See independent auditors' report.

LAKE FOREST REDEVELOPMENT AGENCY

COMPUTATION OF THE EXCESS SURPLUS OF THE
LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND

July 1, 2010

		<u>All Project Areas</u>
OPENING FUND BALANCE - JULY 1, 2010		\$ 4,184,871
LESS UNAVAILABLE AMOUNTS:		
Prepaid items	\$ (1,469)	
Advances to other funds	(990,152)	
Land held for resale	<u>(326,000)</u>	
		<u>(1,317,621)</u>
		2,867,250
LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for last four years:		
2009 - 2010	\$ 990,152	
2008 - 2009	923,613	
2007 - 2008	754,429	
2006 - 2007	<u>632,692</u>	
TOTAL SET-ASIDE FOR LAST FOUR YEARS	<u>\$ 3,300,886</u>	
Base limitation	<u>\$ 1,000,000</u>	
GREATER AMOUNT		<u>3,300,886</u>
COMPUTED EXCESS SURPLUS - JULY 1, 2010		<u>\$ -</u>

See independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER COMPLIANCE

The Board of Directors
City of Lake Forest
Redevelopment Agency
Lake Forest, California

Compliance

We have audited the Lake Forest Redevelopment Agency's (the Agency) compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with the requirements referred to in the first paragraph.

Compliance (Continued)

As described below, the Agency did not comply with the California Health and Safety Code as required by Section 33080.1. Compliance with such requirements is necessary, in our opinion, for the Agency to comply with the requirements referred to above.

Health and Safety Code Section 33080.1(b) requires Redevelopment Agencies to submit a fiscal statement for the previous fiscal year that contains the information required pursuant to Section 33080.5.

In our opinion, except for the noncompliance described in the preceding paragraph, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June, 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the Agency and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specific parties.

White Nelson Duerf Erans LLP

December 8, 2011
Irvine, California